

REPORT BY THE  
AUDITOR GENERAL  
OF CALIFORNIA

---

**A REVIEW OF THE DEPARTMENT OF HEALTH  
SERVICES' REQUEST FOR PROPOSAL FOR THE  
MEDI-CAL DENTAL PROGRAM**

---

REPORT BY THE  
OFFICE OF THE AUDITOR GENERAL  
TO THE  
JOINT LEGISLATIVE AUDIT COMMITTEE

P-350

A REVIEW OF THE DEPARTMENT OF HEALTH  
SERVICES' REQUEST FOR PROPOSAL  
FOR THE MEDI-CAL DENTAL PROGRAM

SEPTEMBER 1983



Telephone:  
(916) 445-0255

Thomas W. Hayes  
Auditor General

STATE OF CALIFORNIA  
**Office of the Auditor General**  
660 J STREET, SUITE 300  
SACRAMENTO, CALIFORNIA 95814

September 2, 1983

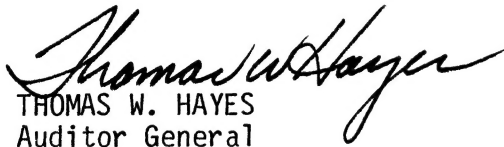
P-350

Honorable Art Agnos  
Chairman, and Members of the  
Joint Legislative Audit Committee  
State Capitol, Room 3151  
Sacramento, California 95814

Dear Mr. Chairman and Members:

The Office of the Auditor General presents its report concerning the request for proposal prepared by the Department of Health Services for the Medi-Cal dental program. We found that many of the contract provisions of the current dental program are addressed in the request for proposal. The State should obtain the lowest feasible cost for the system described in the request for proposal because of the competitive procurement process.

Respectfully submitted,

  
THOMAS W. HAYES  
Auditor General

## TABLE OF CONTENTS

	<u>Page</u>
SUMMARY	i
INTRODUCTION	1
ANALYSIS	
I    AT-RISK PROVISION OF THE DENTAL REQUEST FOR PROPOSAL	4
II   OTHER PROVISIONS OF THE DENTAL REQUEST FOR PROPOSAL	8
III  SAVINGS TO THE STATE	18
IV   QUALITY OF SERVICE PROVISIONS OF THE DENTAL REQUEST FOR PROPOSAL	27
RESPONSE TO THE AUDITOR GENERAL'S REPORT	
Health and Welfare Agency	31

## SUMMARY

We reviewed the request for proposal prepared by the Department of Health Services (department) for the Medi-Cal dental program. We found that the request for proposal addresses many of the contract provisions of the current dental program. We also found that the State should obtain the lowest feasible cost for the contractual services described in the request for proposal because of the competitive bidding process.

### Provisions of the Request for Proposal

The department has considered the at-risk provision and the other provisions of the existing dental program in developing the request for proposal. Under an at-risk contract, the contractor receives advance premiums from the State to pay for dental services provided to beneficiaries. If service costs are greater than the amount received through premiums, the contractor assumes liability for the losses. The current contract with California Dental Service is an at-risk contract; the request for proposal also requires an at-risk contract. The request for proposal also addresses the major provisions of the existing contract; these provisions primarily concern systems for processing claims for dental services.

### Savings to the State

Because the bidding process that the State will follow is a competitive one, the State should obtain the lowest feasible cost for the contractual services described in the request for proposal. The State will award the contract to the qualified proposer who submits the lowest bid price. In addition, the State will seek increased sharing of administrative costs by the federal government. However, a federal official indicated that increased sharing of costs may not be available for an at-risk contract. There are provisions within the request for proposal that may increase administrative costs because the request for proposal calls for additions to the system for processing claims and for storing and retrieving information. However, these changes should result in a more efficient program and, to some extent, reduced program costs. For example, the provisions requiring more financial reports for management's use and the provisions calling for recovery of erroneous payments and assessment of liquidated damages for the contractor's failure to comply with contractual requirements represent sources of potential savings to the State.

### Quality of Service

Finally, the request for proposal contains provisions for assuring delivery of quality dental services. The request for proposal includes the major elements pertaining to quality of service that we identified in the existing contract. These quality of service provisions address both the contractor's fulfilling responsibilities specified in the contract and the dental care that providers render to Medi-Cal beneficiaries.

## INTRODUCTION

In November 1965, the Legislature created the California Medical Assistance Program, commonly known as Medi-Cal. This program, authorized by Title XIX of the Social Security Act and Section 14000 et seq. of the California Welfare and Institutions Code, pays for a variety of health care services provided to beneficiaries. In addition to providing physician, pharmacy, and hospital services, Medi-Cal also provides dental services to beneficiaries. Medi-Cal recipients can receive dental services from the provider of their choice as long as that provider is eligible and elects to participate in the Medi-Cal dental program. The State and the federal government jointly fund the Medi-Cal program.

The dental services portion of the Medi-Cal program is unique in that the State has provided dental services on an at-risk basis. Under the at-risk contract, the contractor receives advance premiums from the State to pay for dental services provided to beneficiaries. The premiums are based on the number of persons eligible for the Medi-Cal dental program. If service costs are greater than the amount received through premiums, the contractor assumes liability, or risk, for the losses.

In January 1974, the State instituted a pilot project to test the feasibility of alternative forms of financing and delivering health care services. The State entered into a four-year agreement with California Dental Service (CDS), a nonprofit corporation, to pay for authorized dental services provided to Medi-Cal beneficiaries on an at-risk basis. CDS also performs other functions that assist the State in administering the Medi-Cal dental program, including processing claims and enrolling providers in the program.

During fiscal year 1982-83, the State paid \$144.9 million to CDS for Medi-Cal dental services. Of this total, \$134.3 million represented premium payments, while \$10.6 million represented administrative costs for processing claims. The federal government reimbursed the State \$69.6 million for premium payments and \$5.5 million for administrative costs.

Although the pilot project with CDS was scheduled to expire on December 31, 1977, legislation was passed to permit the State to extend the contract through July 31, 1983, and beyond if necessary. The Department of Health Services, the single state agency responsible for administering the Medi-Cal program, has prepared a request for proposal to obtain a new contract for processing dental claims and for underwriting the coverage of insured dental benefits.



## SCOPE AND METHODOLOGY

The Budget Act of 1983 required the Auditor General to "ensure that the at-risk and other concepts of the existing **Medi-Cal Dental** program are considered in the development of the new RFP **request for proposal** and that the final RFP shall be one that maximizes state savings while delivering quality service at least equal to that contained in the existing contract."

To accomplish this purpose, we reviewed the draft request for proposal for the Medi-Cal dental program, dated July 1, 1983. We also reviewed the current contract with California Dental Service, including amendments effective through July 31, 1983. We limited our review to contractual requirements and did not review actual operations of CDS. We analyzed and compared provisions in the two documents to address the issues identified in the Budget Act. To obtain additional information on the issues, we interviewed Department of Health Services' officials and staff responsible for managing the current contract, as well as officials and staff responsible for developing the request for proposal. We also contacted the Federal Health Care Financing Administration (Region IX), the current contractor (CDS), and parties responding to the draft request for proposal dated April 1, 1983, to obtain their opinions on the issues.

## ANALYSIS

### I

#### AT-RISK PROVISION OF THE DENTAL REQUEST FOR PROPOSAL

The Department of Health Services (department) has addressed the at-risk provision of the existing Medi-Cal dental program in developing the request for proposal (DRFP) for the Medi-Cal dental program.\* As applied to the Medi-Cal dental program, "at-risk" refers to the situation in which the contractor receives in advance monthly premium payments from the State based upon the number of eligible Medi-Cal beneficiaries. In turn, the contractor pays the costs of the providers' services and assumes risk for any costs exceeding the premium payments issued by the State. The current contractor pays for dental services provided to Medi-Cal beneficiaries on an at-risk basis. The DRFP also requires the contractor to insure dental services on an at-risk basis.

The State contracted with California Dental Service in January 1974 to pay for covered dental services to eligible Medi-Cal beneficiaries on an at-risk basis. Under the

---

\* Throughout this report, we refer to the request for proposal for the Medi-Cal dental program as the "DRFP," the dental request for proposal.

contract, the State makes monthly payments to the contractor for each eligible Medi-Cal beneficiary; these payments are based on rates that are negotiated yearly. The contractor is required to pay providers' fees for those dental services covered by the contract. Since patterns and conditions of beneficiaries' use of dental services will vary, the contractor's payments to providers may be either less than or more than the total sums provided by the monthly premium payments.

When the contractor's payments to providers exceed the premium payments that the contractor receives from the State, the contractor assumes the major risk for the loss. Under the current contract, the providers also share some of the risk. The current contract generally requires the contractor to withhold 5 percent of the amounts payable to providers and to place these amounts in the Denti-Cal Participation Fund to be used to cover program losses. After payment of losses, half of the funds is to be distributed to providers, while the remaining half is carried over to the succeeding year as a reserve for losses. When payments to providers are less than the premium payments the contractor receives from the State and a gain results, the current contract requires the contractor to return to the State any amount exceeding 5 percent of the State's total payments for

the year. The contractor retains any gain up to 5 percent of the total premium payments made by the State.

The DRFP also requires the contractor to guarantee and assume liability for the payment of all covered dental services provided to Medi-Cal beneficiaries. The State will pay the contractor on the basis of a guaranteed per capita premium rate for eligible Medi-Cal beneficiaries. Under the current contract, the State negotiates premium rates each year. Under the DRFP, premium rates for the first year of operations will be based on competitively bid prices, while rates for later years can be adjusted through negotiation.

As mentioned above, the current contract generally requires providers to share the risk for losses. The DRFP indicates that the contractor may try to secure providers' participation in sharing the risk through provider-invested funds, but the contractor must advise the providers that such participation is voluntary. In addition, the contractor may not attempt to obtain provider participation in the risk until the first day of operations scheduled for 9 months after the contract has been approved. The contractor may, however, obtain insurance for not more than 90 percent of dental program costs that exceed 114.5 percent of dental program income.

The current contract requires gain or loss to be determined on a yearly basis. Under the DRFP, the contract period will be 3 years, 9 months, with an option to extend the contract for up to two extensions of one year each. The DRFP states that gain or loss will not be determined until the end of the entire contract period, including 15 months of contractor liability following the end of the contract. While the current contractor is entitled to any gains up to 5 percent of the total premiums paid for a year, the DRFP specifies that gains will be shared by both the State and the contractor. For any gains up to 5 percent of the total premiums, the State will be allocated 40 percent, and the contractor will be allocated 60 percent. For gains between 5 percent and 10 percent, the State will be allocated 75 percent, the contractor 25 percent. Any gains greater than 10 percent will be returned to the State.

## II

### OTHER PROVISIONS OF THE DENTAL REQUEST FOR PROPOSAL

The at-risk provision of the request for proposal for the Medi-Cal dental program addresses the method by which the Department of Health Services intends to finance dental services for Medi-Cal beneficiaries. The other portions of the DRFP deal with the fiscal intermediary functions of administering the program, including processing claims and providing information to assist state management in fiscal planning and control. The following sections discuss some of the major provisions of the fiscal intermediary functions that are addressed in the DRFP and that are also addressed in the current contract.

#### Claims Processing

The current contract requires the contractor to process dental claims, to approve dental services, and to pay providers for services rendered to eligible Medi-Cal beneficiaries. The contract does not describe the type of system for processing and paying claims or for approving services. The contract does require the contractor to maintain a history of each individual treated and a list of providers.

In addition, a September 1982 amendment to the current contract gave the State the right to review and approve in advance any changes to the established claims processing system developed after July 1, 1982. According to department staff, the State did not participate in the development of the current claims processing system.

While the current contract requires the contractor to pay dental claims in accordance with Medi-Cal policy and regulations, the contract does not specify what is required in the claims processing system. The DRFP is much more specific in describing both the requirements of the claims processing system and the responsibilities of the contractor. Through the system, the contractor will be responsible for processing, adjudicating, and paying dental claims, processing and adjudicating prior authorizations, and fulfilling other general requirements. The DRFP describes a system that integrates manual and automated procedures to process and pay or deny claims, and to approve, modify, or deny certain dental services before they are provided. The DRFP also requires the contractor to perform manual or automated reviews to ensure that payments are made only for services in accordance with established Medi-Cal policy and regulations. The contractor is required to maintain patient history files to aid in preventing payment for duplicate dental services or for services whose frequency is restricted.

### Adjudicated Claim Service Line

According to department staff, the current contractor pays providers on a per claim basis. Each claim for an individual patient can consist of several different dental services or procedures. Under the DRFP, the contractor is to use the adjudicated claim service line concept to process and to pay or deny dental claims. A service line is an individual line on a provider's bill indicating the specific service rendered and the fee associated with that service. Several service lines can be submitted on one claim form.

When providers are paid on a per claim basis, no individual service line can be paid until all service lines have been reviewed and either approved or denied. Under the adjudicated claim service line concept, however, some service lines on a single claim form can be paid while others may be denied or suspended for additional review. Each time the contractor pays a service line on a claim form, the contractor must report to the provider the status of all other service lines on that claim form. Although one potential bidder has objected to this concept, maintaining that providers could be at a disadvantage in tracking payments, department staff have indicated that the adjudicated claim service line concept will improve providers' cash flow. Even if not all service lines are approved, the providers will still receive payment for



those service lines that have been approved; payment will not be delayed while other service lines are reviewed further.

#### Compensation for Administrative Costs

As compensation for administrative functions, the current contractor receives monthly payments based upon the number of claims paid per month. The payment rate for administrative costs are negotiated each year.

Under the DRFP, administrative costs will not be negotiated on a yearly basis, but will be determined on the basis of bids submitted prior to the award of the contract. Bidders are required to submit a fixed price bid for each of the three years of operation of the contract. In addition, bidders must submit separate bids for potential contract extensions.

#### Prior Authorization

Prior authorization refers to a provider's request for permission from a Medi-Cal consultant to render specified services to a beneficiary. Title 22 of the California Administrative Code requires that certain dental services be authorized in advance. Prior authorization is intended to ensure the following: that requested dental services are covered benefits and are necessary; that the proposed treatment

is consistent with the clinical findings, the patient's oral health status and history, and accepted standards of dental practice; and that the requested service or item represents the lowest cost service or item that is covered by the program and that meets the patient's medical needs.

The current contract requires the contractor to determine whether the proposed services listed in the prior authorization request are reasonable and necessary and then inform the provider that the proposed services have been approved, modified, or rejected. However, the contract does not specify the procedures that the contractor is to follow to meet these requirements.

The DRFP also requires the contractor to perform prior authorization, and it is more specific on the procedures involved. The contractor is to use dental professionals and paraprofessionals in providing prior authorization. The dental professionals must be licensed in California, and the contractor must develop and submit a plan to the State for approval clearly delineating the roles of both the professionals and paraprofessionals. This plan must include a system by which dental professionals monitor paraprofessionals' decisions and provide necessary corrective action or training. According to department staff, dental paraprofessionals will be

allowed to authorize services based upon the scope and level of benefits. Only a dental professional can modify or deny prior authorizations.

#### Dental Consultants

The current contract does not directly address the need for and the staffing levels of dental professionals to review claims and prior authorizations to determine whether covered services are reasonable and necessary. The current contractor indicated that all claims requiring professional judgment and evaluation are examined by a full-time staff of dental consultants. In addition, the contractor obtains second opinions, when necessary, from practicing dentists who serve as regional consultants and who are available to examine patients. Representatives of the current contractor indicated that while the opinions of the regional consultants are considered, the contractor is responsible for the final decision on prior authorizations. The contractor maintains that this type of review system gives the Medi-Cal dental program a "critical flexibility." For example, without regional consultants, the contractor indicates that treatment plans would be delayed.

The DRFP is more specific in describing the contractor's responsibilities pertaining to dental consultants. Dental professionals and paraprofessionals must review dental

claims and prior authorizations. Furthermore, when a modification or denial requires professional judgment, this judgment must be provided by a dentist licensed in California. In addition, the DRFP requires that the contractor develop a plan, to be approved by the State, for using dentists as regional consultants to give an opinion on the necessity of the dental services submitted for prior authorization. The licensed dental consultants on the contractor's staff are to consider the regional consultants' opinions, but the contractor will be responsible for the final decision on the request for prior authorization. The DRFP also indicates that regional consultants will also be used for post-service reviews. A post-service review is a review of a dental service after that service has been provided to see that the service was necessary and covered by the dental program.

#### Provider Enrollment

Under the current contract, eligible Medi-Cal beneficiaries may receive the full range of dental services covered by Medi-Cal from any licensed Medi-Cal provider not otherwise excluded from participation by the State. The contract, however, does not specify the contractor's responsibilities for certifying that a provider is licensed and not under suspension or ineligible to participate in the Medi-Cal dental program. The contract also does not specify

the contractor's responsibilities for enrolling providers in the program. The current contractor performs the provider certification and enrollment function. The State has no responsibility for certifying or enrolling providers, but the State is to notify the contractor of those providers who have been excluded. The contract does, however, require the contractor to establish and maintain a system for issuing identification numbers to all providers of services under the Medi-Cal dental program. These numbers, issued in provider enrollment, are used to process and pay claims and to process prior authorizations.

The DRFP specifies that the State will be responsible for certifying providers. The State will make sure that a provider is licensed and not under suspension or otherwise found ineligible from participating in the Medi-Cal dental program. As part of the certification process, providers will sign an agreement saying that they will follow all policies, regulations, and laws affecting the Medi-Cal dental program. Providers are also to declare any significant beneficial interest in another current or potential Medi-Cal provider.

The DRFP specifies that the State and the contractor will share the responsibility for enrolling certified providers in the Medi-Cal dental program. The State will enroll providers in the program and create a computer file that will

be used in processing claims and in reporting surveillance, utilization, and management information. The contractor will maintain the computer file and process any changes made to the file by the State. According to department staff, the DRFP conforms with current department policy concerning who should perform the provider certification and enrollment function. In addition, department staff indicate that the department will be able to ensure that the laws, regulations, and policies pertaining to provider participation in the dental program are applied.

#### Provider Relations

The current contractor is required to furnish providers with information about the scope of services covered by Medi-Cal and the procedures for submitting claim forms for approval and payment. The contractor is also to maintain a staff of representatives to receive and answer telephone and written inquiries concerning authorization and payment. The contract also requires the contractor to give providers information that will be helpful in administering the dental program.

The DRFP requires the contractor to provide continual training and communication to providers regarding program regulations, procedures, and policies. The DRFP requires the

contractor to employ staff to train providers on billing procedures, prior authorization requests, and other program procedures. The contractor is required to print and distribute manuals informing providers about Medi-Cal procedures, policy, statutes, and regulations. Finally, the contractor is required to employ provider relations staff to receive inquiries from providers and to respond to these inquiries by making telephone calls, writing letters, and making site visits.

### III

#### Savings to the State

The State should obtain the lowest feasible cost for the contractual services described in the request for proposal for the Medi-Cal dental program because of the competitive bidding process. The State will award the contract to the qualified proposer submitting the lowest-priced bid. In addition, the State expects the federal government to increase its share of the cost of the dental program as described in the DRFP. However, a federal official has indicated that increased cost sharing may not be available for an at-risk contract. The DRFP also contains certain reporting requirements that are intended to increase the State's efficiency in managing the dental program, thereby also resulting in savings to the State. Finally, certain financial provisions within the DRFP provide mechanisms or incentives for the contractor to comply with contractual requirements.

#### Competitive Bidding

The competitive bidding provisions in the DRFP should result in the lowest feasible cost for procuring dental insurance and fiscal intermediary services for the Medi-Cal dental program. The State is using a two-step procurement



process to award this contract: the State will first issue a DRFP that solicits technical proposals from potential contractors; then, the State will request bids from the qualified proposers. Subsequently, the State will award the contract to the proposer submitting the lowest total bid.

The State awarded the current contract on a noncompetitive, or sole-source basis, under the pilot project provisions of the California Welfare and Institutions Code. The contract was scheduled to expire after four years, on December 31, 1977. However, legislation permitted the State to extend the contract at six-month and one-year increments up to the present time. The contractor and the State have thus operated the dental program as a pilot project for over nine years.

The provisions for federal financial participation clearly require open, competitive procurement processes. Federal regulations also emphasize the need to maximize competition when procuring services that will be funded in whole or in part by federal funds. In regard to the dental program, Region IX of the Federal Health Care Financing Administration (HCFA) has specifically encouraged the State to seek competition in procuring a new dental contract. Furthermore, the HCFA has the authority to reduce the level of

federal funding if the State does not comply with federal regulations requiring a competitive procurement process.

#### Federal Financial Participation

The State expects the federal government to assume an increased share of the administrative costs of the Medi-Cal claims processing and information system specified in the DRFP. However, a federal official has indicated that increased cost sharing may not be available for an at-risk contract. The DRFP essentially requires that the contractor design, develop, install, and operate the system for processing Medi-Cal dental claims and then turn it over to the State or a subsequent contractor upon termination of the contract. The State incorporated the federal requirements for a Medicaid Management Information System (MMIS) into the specifications for the new contract. The MMIS is an automated claims processing system that provides information needed for managing Medicaid systems.

Title XIX of the Social Security Act provides federal matching funds for MMIS design, development, installation, and operation. These matching funds, or federal financial participation (FFP), range from 50 percent to 75 percent for administrative costs. Before California can receive the maximum amount of matching funds available, the Federal Department of Health and Human Services must review, test, and

certify the sufficiency of the system. The State believes that the system outlined in the DRFP qualifies for enhanced federal funding because the system meets MMIS requirements.

The current contract does not specify the type of system for processing claims, and the current system for processing dental claims is not a certified MMIS. Because the current system is not certified, the State is obtaining approximately 50 percent FFP for administrative costs. To operate the new system outlined in the DRFP, the State expects to obtain 75 percent FFP. In addition, the State is planning to secure 90 percent FFP for the cost of designing, developing, and installing the MMIS described in the DRFP for the California dental program.

However, an official from Region IX of the HCFA indicated that he does not believe the proposed dental claims processing and information system qualifies for increased FFP. He cites federal regulations stating that enhanced FFP is not available for at-risk contracts. According to a department official, the department disagrees, however, and believes that the contract for the Medi-Cal dental program described in the DRFP qualifies for MMIS certification and enhanced FFP. The department will continue to seek such funding from the HCFA.

## Reporting and Monitoring Requirements

The DRFP contains provisions for MMIS reporting requirements, the recovery of erroneous payments, and the assessing of penalties. While these provisions could lead to additional administrative costs because they increase the State's monitoring requirements, the provisions should also result, to some extent, in reduced program costs. The additional requirements for management reports should lead to a more efficient program and better control of costs. Moreover, the provisions for recovering erroneous payments and for assessing damages for the contractor's failure to comply with contractual requirements should also result in savings to the State.

The current contractor is required to provide the State with reports related to the program. However, the contract does not specify the type or format of these reports. According to department staff members, the current contractor has provided the State with few reports on program management in the past, and the reports have usually been neither prompt nor accurate.

In the DRFP, the contractor is required to design and maintain a Management and Administrative Reporting Subsystem, an MMIS requirement. The State's objectives include

establishing a reporting system that will assist management in fiscal planning and control, that will monitor the progress of processing claims, and that will provide summary reports reflecting the current status of the dental program. This reporting system will also provide information on beneficiary participation that will facilitate the analysis of dental program use. The DRFP specifically requires the contractor to produce administrative cost reports, such as financial review reports and program expenditure reports. Furthermore, the contractor is required to produce provider payment reports for monitoring payments and to produce beneficiary reports for detecting significant changes in the availability and accessibility of dental services to beneficiaries. The DRFP specifies all of the Management and Administrative Reporting Subsystem reports that the contractor is required to produce, and it specifies both the content and the format for these reports. Additionally, under the provisions in the DRFP, the State will actively monitor the data needs of the dental program and ensure that the data for the required reports are accurate and readily accessible. The State will also monitor the contractor to ensure that the contractor produces timely and accurate reports.

According to department staff, the department needs timely and accurate reports because these reports, such as the program management and administrative cost reports, will enable

the department to evaluate the accuracy and appropriateness of claim payments and to monitor program costs. The department has recently questioned the current contractor's accuracy and appropriateness in paying claims. According to a department audit report prepared by the Audits and Investigations Division, claims processing errors made by the current contractor during calendar year 1981 resulted in over \$3 million in potential overpayments to providers. However, the current contract does not allow the State to recover erroneous payments made by the contractor. The State can only consider these erroneous payments in negotiating premium rates for the following year and reduce the costs used in calculating new premium rates.

Unlike the current contract, the DRFP contains provisions that allow the department to recover erroneous payments made by the contractor. The department staff will review a randomly selected sample of prior authorizations and claims, and the contractor will be liable for all unrecovered payments or overpayments that the contractor makes to providers as a result of contractor error. The contractor will be

required to reimburse the State's Pure Premium Fund in an amount equal to the unrecovered payments or overpayments.\*

The current contract also does not contain provisions for assessing liquidated damages when the contractor does not comply with contractual requirements. Under the DRFP, however, the State may assess liquidated damages when the contractor fails to fulfill certain contractual obligations. The State may impose liquidated damages of \$5,000 per day for each calendar day that the contractor delays in completing the testing of all subsystems of the MMIS for the Medi-Cal dental program. The State may also impose penalties of \$2,500 per day for each calendar day of delay in the installation and testing of either the Management and Administrative Reporting Subsystem or the Surveillance and Utilization Review Subsystem. The State will also impose liquidated damages if the contractor does not comply with the operating and reporting requirements of the MMIS for the Medi-Cal dental program.

Even though certain provisions of the DRFP may lead to cost savings to the State, to some extent these savings will

---

\* Premium payments by the State are to be deposited in the Pure Premium Fund. The contractor pays the costs of claims for dental services from this fund. The contractor is required to maintain other funds to demonstrate the contractor's capacity to fulfill its financial obligations under the DRFP. The Pure Premium Fund is considered separate from these other funds.

be reduced by the additional costs of the claims processing and information system and the additional costs that the State will incur in monitoring the contractor. According to a department official, the department is currently developing a plan for managing the contract. This plan will provide for the redirection of existing staff necessary to manage the contract effectively.



#### IV

##### QUALITY OF SERVICE PROVISIONS OF THE DENTAL REQUEST FOR PROPOSAL

The Department of Health Services' request for proposal for the Medi-Cal dental program contains provisions for assuring the delivery of quality dental services. The DRFP includes the major elements dealing with quality of service that we identified in the existing contract.

The current contractor is required to prepare and implement a quality control plan assuring the State that the contractor's administration of the dental program conforms to applicable regulations. In addition, the current contract requires the contractor's dental consultants to screen a random sample of claim forms submitted for payment to check both the necessity and reasonableness of the services and the quality of care provided.

The DRFP also specifies a quality control program to ensure the contractor's compliance with contract requirements. The contractor is to use a statistically reliable and valid random sampling method to audit both claims and prior authorizations to ascertain whether the system is functioning according to contract requirements. These requirements include

compliance with regulations pertaining to the reasonableness and necessity of dental services and the quality of dental care.

The current contract requires the contractor to operate "systems designs and controls" that will enable personnel to detect instances of poor service and program fraud and abuse. The contract states that the department is to conduct a surveillance and utilization review to reveal potential misuse of dental services and to identify defects in the level of care or quality of service provided to beneficiaries. The contractor is to assist in the review process by supplying the department with copies of records.

The DRFP makes the contractor responsible for detecting patterns of fraud and abuse among providers or beneficiaries. The Surveillance and Utilization Review Subsystem described in the DRFP will be able to produce the three major reports needed to assist in identifying fraud and abuse. In addition, the subsystem can also identify possible underuse of dental services. According to a department staff member, the department has been concerned about potential underuse of services that may occur because of denial or unnecessary delay of authorizations or payments for needed dental services. In an at-risk contract, where profits result only if the costs for services are less than the premiums

received, the contractor has the incentive to deny services, because by denying services, the contractor's costs are reduced and the contractor has a better opportunity to earn a profit. The DRFP provides for the assessment of liquidated damages if the contractor should deny or unnecessarily delay authorization or payment for covered dental services deemed necessary and appropriate by the State.

Finally, the DRFP continues to use the "Criteria for Dental Services Under the Medi-Cal Program" as it exists under the current contract. Through these criteria, the department intends to improve the quality of care and the efficiency of dental services given to patients and to avoid providing unnecessary or excessive items or services to beneficiaries.

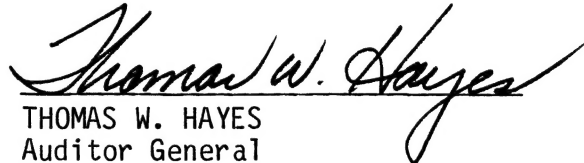
#### CONCLUSION

The Department of Health Services' request for proposal for the Medi-Cal dental program addresses the at-risk provision and other provisions of the current contract for the dental program. Because the department will follow the competitive bidding process in selecting the next contractor for the Medi-Cal dental program, the department should obtain the lowest feasible cost for processing dental claims and for underwriting the coverage of dental benefits.

In addition, the department expects that the federal government will increase its share of administrative costs. However, a federal official indicated that increased sharing of costs may not be available for an at-risk contract. Finally, the department's request for proposal contains provisions for assuring delivery of quality dental services.

We conducted this review under the authority vested in the Auditor General by Section 10500 et seq. of the California Government Code and according to generally accepted government auditing standards. We limited our review to those areas specifically referred to in the 1983 Budget Act.

Respectfully submitted,

  
THOMAS W. HAYES  
Auditor General

Date: August 29, 1983

Staff: Richard C. Tracy, Audit Manager  
Noriaki Hirasuna  
Bernice D. Ericksmoen  
Stephan J. Cohen  
Francine Q. Ho



## HEALTH and WELFARE AGENCY

OFFICE OF THE SECRETARY  
1600 NINTH STREET, ROOM 460  
Sacramento, California 95814  
(916) 445-6951

August 25, 1983

Mr. Thomas W. Hayes  
Auditor General  
Office of the Auditor General  
660 J Street, Suite 300  
Sacramento, CA 95814

Dear Mr. Hayes:

Thank you for the opportunity to review and comment on your draft report entitled "A Review of the Department of Health Services' Request for Proposal for the Medi-Cal Dental Program." This report has been kept confidential and has not been re-produced.

The Department of Health Services' review of the draft report finds that the report language fairly and accurately portrays the status of the department's efforts during the Dental Reprocurement Project. I feel confident that this effort will result in an effective and efficient system for the delivery of dental services.

Once again, thank you for the opportunity to review and comment on your draft report.

Sincerely,

A handwritten signature in dark ink, appearing to read 'David B. Swoap', written over a horizontal line.

DAVID B. SWOAP  
Secretary

cc: Members of the Legislature  
Office of the Governor  
Office of the Lieutenant Governor  
State Controller  
Legislative Analyst  
Director of Finance  
Assembly Office of Research  
Senate Office of Research  
Assembly Majority/Minority Consultants  
Senate Majority/Minority Consultants  
Capitol Press Corps